Testimony of

Gregory Kelley, President and CEO

Before the

U.S. International Trade Commission

Olive Oil: Conditions of Competition between U.S. and Major Foreign Supplier Industries

Investigation No. 332-537

My name is Gregory Kelley and I am the President and CEO of California Olive Ranch, based in Chico, California. On behalf of U.S. olive oil producers, I want to thank the Commission for conducting this fact-finding investigation and allowing a forum to discuss the issues that are preventing the United States from being competitive in the growing global olive oil industry.

California Olive Ranch was founded in 1998 by a group of Spanish investors who became aware of an innovative method for growing and harvesting olives for the production of oil. This new system presented an opportunity to make a major improvement to the olive oil industry by allowing for the cost-effective mechanical harvesting of olives when they are capable of producing high-quality olive oil. Prior to the advent of mechanical harvesting, removing the fresh olives required to produce extra virgin olive oil was a labor-intensive and cost prohibitive task.

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California Olive Ranch had the opportunity to make an investment anywhere in the world, but selected the U.S., and California specifically, based upon the region's track record of success in advanced agricultural production, optimal climate for olive growing, and reputation for quality-based differentiation. One only has to review the history of wine grapes, almonds, walnuts, tomatoes and pistachios in California over the past 40 years to feel comfortable with the State's ability to compete globally in the production of specialty Mediterranean crops.

This instinct has been validated as California Olive Ranch regularly yields twice the amount of oil per acre as the average European olive orchard and can harvest that oil for 12% of the cost of a hand harvest. Moreover, in the history of California Olive Ranch less than 1% of its cumulative production volume failed to exceed any global standard for extra virgin olive oil.

To a businessman, the opportunity for olive oil production in the U.S. is simple: higher productivity combined with improved quality equals competitive advantage. However, as we grew the Company beyond the small niche markets, it became clear that two significant issues would prevent the U.S. from being competitive in olive oil production: the marketing of multiple, intentionally misleading and virtually meaningless grades of olive oil to American consumers, and a variety of entrenched European government programs and industry structures that provide massive support to 70% of the world's olive oil production. These factors, combined with American's exposure to largely low quality olive oil in restaurants and on retail shelves present a tremendous challenge to producers of olive oil with verifiable quality.

According to the International Olive Council standard, extra virgin olive oil is to be "free of defects." However, several studies indicate that the majority of imported olive oils fail to meet this definition and current IOC and USDA chemical tests are unable to ensure that is the case for consumers. New chemical tests have been developed in Germany and are now being used by certain large European retailers but these tests continue to be shunned by the IOC.

Consumer research performed by California Olive Ranch indicates that Americans are confused by olive oil. Most know that they should be purchasing extra virgin olive oil, as indicated by 65 to 70 percent of retail sales being labeled as such according to IRI. The challenge to producers of authentic extra virgin olive oil is that consumers have learned to purchase products labeled extra virgin, yet are accustomed to a product that is not extra virgin according to global written definitions of the grade.

The fact that lower quality olive oil can be produced less expensively with massive foreign support programs and marketed to Americans at prices below the cost of production for defect-free extra virgin olive oil presents a significant barrier to our industry. There is no better example than Spain where its producers, which accounted for more than 50% of the world's olive oil last year, received government aid totaling 40% of their income in 2010.

This level of subsidization is reflected in the retail sales price for the seven largest brands of imported olive oil in the U.S., which averaged $4.57 per 16 ounce package in the past 52 weeks, with two of the larger brands selling at an average of approximately $2.10. Since American retailers demand gross margins ranging from 30 – 50%, this would impute a wholesale price of $2.29 to $3.20. I know of no system for the production of extra virgin olive oil capable of supporting such pricing. The average retail price for California Olive Ranch, the largest brand of domestic olive oil in the United States, was more than $7 during the same period. California Olive Ranch is not profitable at a level that would substantiate further investment at these pricing levels.

Given the daunting challenges facing the American olive oil industry, it is my hope that the ITC is successful in uncovering the competitive factors that are retarding us from becoming significant global producers of olive oil. I believe that we are among the best growers of olives in the world, have implemented superior processing and storage technologies, and provide consumers with a healthy and authentic high quality product using sustainable methods that can help address certain environmental problems facing our state and country. I appreciate the opportunity to provide the ITC with my testimony and welcome any questions you might have during your investigation.